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SUBJECT: LNG UPDATE ON NIGERIA: CHEVRON, EXXON, ANNOUNCE
PROPOSALS FOR LNG PLANTS

REF: 2004 LAGOS 2470

Classified By: Classified By: Consul General Brian L. Browne for
Reasons 1.4 (D & E)

Summary

1. (SBU) This cable provides an overview of two new proposals for liquefied natural gas (LNG) projects in Nigeria, as well as a status report on the expansion of an existing plant. In January Chevron Texaco (Chevron) announced a feasibility study on a potential 10 million metric ton liquefied natural gas (LNG) project worth \$6 billion on the border of Ogun and Ondo States. Some Ijaw leaders have disputed the siting of the plant, stating they will resist attempts to remove gas from Delta State for processing elsewhere. ExxonMobil (EM) announced an agreement for pre-front-end engineering design work for a 4.8 million ton LNG plant on Bonny Island, Rivers State. Scheduled to be operational by 2010, the plant would include an integrated power production project, a high priority for the GON, which is severely lagging behind in its electoral promises to increase the nation's electrical output. However, President Obasanjo's recent demands for each oil major to construct an operational IPP by the 2007 elections may complicate the project for EM. Nigerian LNG currently has three LNG trains in operation; train four and five will begin operations this year. All of these LNG projects are in line with GON aspirations to become a major world force in gas production and export.

Chevron Announces Feasibility
Study for \$6 Billion LNG Plant

2. (U) In a January press release, Chevron announced it, along with the Nigeria National Petroleum Company (NNPC) and the BG Group, will conduct a feasibility study on a potential liquefied natural gas (LNG) project in Nigeria. The proposed processing facility would be located in the Olokola Free Trade Zone, on the coastline border of Ogun and Ondo States. According to Chevron, the feasibility study will examine available gas supply, marine/LNG loading concepts, available LNG technology options, LNG market options, project economics, and the social and environmental impact of the potential project. Total investment for the project is anticipated to be around \$6 billion. The final investment decision will be based on the results of the feasibility study, and is planned for 2006.

Chevron Plant Would Begin
Operations by 2009, Reduce Flaring

3. (U) NNPC Group Managing Director Funsho Kupolokun explained the project would be executed in phases, with the initial phase involving the production of 10 million metric tons of gas annually. Kupolokun also underscored the GON's commitment to the project, which will contribute to the meeting the GON's goal of zero gas flaring by 2008. Chevron Gas Commercialization Manager Jim Wisner told us the first phase would involve two trains (5 mmta each). The first train would be on-line by 2009, with a second train on-line about 6 months later. Subsequent project phases to bring the plant to a capacity of 30 million metric tons annually will come on stream as market and gas supplies align.

Siting of Proposed Plant Ignites Controversy

14. (SBU) February press reports indicate Ijaw Leader Chief Edwin Clark has called for Delta State residents to resist the siting of the plant on the border between Ogun and Ondo states. Instead, Clark and other Ijaw leaders are calling for the plant to be in Delta, warning any attempt to utilize gas resources from the Niger Delta for a plant located elsewhere would be resisted. Press reports indicate Clark called the decision to locate the plant on the Ogun/Ondo border, "an abuse of power, and the Federal Government's decision is based purely on ethnic consideration." He accused Ogun, Ondo, Abia, and Imo States of attempting to sneak into the ranks of oil-producing states in Nigeria, when they lay outside of the geographical boundaries of the Delta region. (Note: States in the Delta region are entitled to 13 percent of the lucrative oil revenues collected by the Federal Government. Allocation of oil revenues between the GON and state governments, and division of such revenues between the states, is a perennial source of discord between the states. End note.)

15. (SBU) A spokesman for Ondo State noted the decision regarding the plant site was based on investment considerations, highlighting its location on the western flank of the Niger Delta, with ready access to gas resources, but within a 45-minute drive of Nigeria's commercial hub, Lagos. (Comment: Given that one-third of Chevron's production has remained shut-out in the Escravos area of Delta State due to communal unrest, since March 2003, Chevron would likely prefer to invest its capital elsewhere in the country. End Comment.)

Mobil, NNPC Sign MOU on Proposed LNG Project

16. (U) In a January 18 press release, ExxonMobil (EM) announced a Memorandum of Understanding (MOU) between Mobil Producing Nigeria (MPN), and NNPC, to carry out pre-front-end engineering design (pre-FEED) work for a major Liquefied Natural Gas (LNG) and an integrated power production (IPP) project on Bonny Island, Rivers State. Given the dearth of electrical power in Nigeria, promoting IPP projects is a GON's priority. EM indicated first phase of the proposed project would include one LNG train with an annual capacity of 4.8 million tons. EM External Relations General Manager Udom Inoyo noted additional trains may be considered for later. Gas from MPN/NNPC joint venture projects would supply feedstock for the project; final markets for the NLG would include the U.S. EM states the pre-FEED work will also determine the feasibility of integrated power production to supply electric power to Nigeria's national grid. Inoyo indicated if the project is approved, EM management hopes to have it operational by 2010.

President Demands IPPs for 2007 Election

17. (C) However, Inoyo told us that in a late February meeting with the majors, President Obasanjo "laid down the law" regarding IPPs. Obasanjo is demanding that every major construct an operational IPP by 2007. Inoyo noted the difficulty Obasanjo has had in meeting commitments to make power accessible to the average Nigerian; his campaign promises in this area "lie in tatters." Press reported Obasanjo saying, "I have told the people of Nigeria that by 2007 we will have 10,000 MW of electricity." Shell and AGIP appear to be on the way to constructing their plants, albeit behind schedule. The President has now directed the establishment of a committee to report to him monthly on the status of the IPP projects for all majors. Shell, ExxonMobil, Chevron, and AGIP. EM had planned to build its IPP as part of the larger LNG plant, and bring the entire project on-line by 2010. A 2010 start date is far beyond the 2007 elections, and likely will not meet the President's approval. Inoyo indicated EM is now going back to the President to determine if their plans will be acceptable to him. Alternately, EM is facing the expensive prospect of re-working their plans to bring an IPP on-line by 2007, independent of their proposed LNG plant.
NLNG Expansion on Track;
Trains 4 and 5 On-Line this Year

18. (U) Bonny Island, Rivers State, is also the site of the Nigerian Liquefied Natural Gas (NLNG) plant, a joint venture between NNPC, Shell, Total, and ENI. NLNG claims to be the largest industrial project in Africa. NLNG currently has three NLG trains operational, with trains four and five almost completed. NLNG informs us train four should begin operations this June with train five commencing in November. In July 2004, NLNG management approved the final investment decision to construct train six, which is planned to begin operations by the fourth quarter of 2007. Train 6 will add about 4 million tonnes per annum to NLNG's capacity, for a

final annual capacity of 22 million tonnes of LNG and 5 million tonnes of natural gas liquids (LPG and condensate). 35% of NLNG's total output will go to the United States and Mexico through long-term sales and purchase agreements. Additional agreements have been contracted with buyers in Italy, France, Turkey, Spain and Portugal.

Dakouro: NLNG Won't Expand Beyond Train Six;
Kupolokun Disagrees?

9. (C) Presidential Advisor for Petroleum and Energy Resources, Dr. Dakouro, noted the GON would not support the expansion of NLNG beyond the six trains currently planned. There is little space to further expand the plant. More critically, however, the GON believes it was too lenient in the fiscal terms granted NLNG, and the GON will not expand the plant further under such an arrangement. As the first LNG plant in Nigeria, the project was considered high risk. The GON argues that with one major plant successfully operating in Nigeria, the subsequent investors merit fewer fiscal concessions. However, Group Managing Director Kupolokun has discussed possible additional NLNG trains in the press in the last month.

Feed for Brass LNG In Process

10. (U) In addition to the newly proposed NLG plants, Brass LNG, a joint venture between ConocoPhillips, Chevron Texaco, ENI, and NNPC, has commissioned Bechtel to carry out a FEED(reftel). The capacity of Brass LNG is expected to be 12.5 million tons annually, with the primary markets again being the U.S. and Europe. Brass LNG has not yet reached final investment decision; if approved next year, operations are planned to begin around 2009.

Who Will Cross the Finish Line First?

11. (SBU) With the announcement of two new proposals for LNG plants, Nigeria is making the move to become one of the world's leading exporters of LNG. Despite disagreements between the GON and operators regarding pending legislation on gas fiscal terms, these new projects will form an integral part of the GON's quest to become a major player in gas production and export. Industry figures disagree whether all of the above LNG plants will move forward, or whether this number of plants would create over-capacity in the world market. If the latter is true, only those projects that reach a positive final investment decision soonest are likely to move forward. Other industry figures point to the tremendous growth in demand for gas, arguing all of the proposed projects will eventually move forward, but noting some project timelines may need to be readjusted according to international demand for LNG.

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